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ECONOMIC INTELLIGENCE REPORT

SURVEY OF THE ECONOMIES  
OF THE SINO-SOVIET BLOC



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ECONOMIC INTELLIGENCE REPORT

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CIA/RR 101

(ORR Project 10.1757)

CENTRAL INTELLIGENCE AGENCY  
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FOREWORD

This report has been prepared to acquaint the reader with significant facts and issues required for an analysis of the economies of the Sino-Soviet Bloc. The results of the utilization by the Sino-Soviet Bloc of their material and human resources can vitally affect US foreign policy, whether the utilization be in foreign trade, in military programs, or in domestic economic programs. In this context, attention is paid to evidences of economic strengths and weaknesses and to evidences of the aims and purposes of economic policy.

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The content of this report conforms in general to the contributions of ORR to the National Intelligence Estimates. In the event of conflict herein with a National Intelligence position, the latter controls, for this report is not intended as a new substantive contribution.

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SURVEY OF THE ECONOMIES OF THE SINO-SOVIET BLOC\*

Summary

The confidence in the economic strength and solidarity of the Sino-Soviet Bloc\*\* which was expressed so firmly at the Twentieth Party Congress of the Communist Party of the USSR in early 1956 weakened by the end of 1956. Strength is still there, but the solidarity has been proved not so strong as had been thought, and the internal economic problems of the various countries loom larger than expected. To the critics of the Communist system, events have been encouraging; to the Communists, sobering. Bloc countries are now in a period of transition and of unstable relationships -- a period of reorganization, of re-planning, of renegotiation, and of regrouping.

By early 1956 the Sino-Soviet Bloc had become an impressive aggregation of economic power. Its population was 900 million. Its total gross national product (GNP) was 38 percent that of the NATO countries, almost 70 percent that of the US. Its rate of economic growth was significantly more rapid than the present growth of the NATO powers or of the US.

Despite the confidence expressed in early 1956, deep economic problems lurk under the surface today. In the USSR, pressure is increasing against the developed resource base which would require expensive investment, particularly in ferrous metallurgy, fuels, and energy, if rapid growth is to continue. The rate of additions to the labor force will begin to fall in 1958 or 1959, necessitating greater emphasis upon the increase of labor productivity. New pressures for increases in consumer satisfaction have been generated which will require increased investment in agriculture and housing and which will require an increased output of consumer goods. In the European Satellites, there is

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\* The estimates and conclusions contained in this report represent the best judgment of ORR as of 1 July 1957.

\*\* The Sino-Soviet Bloc consists of the USSR, the European Satellites (Albania, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Rumania), Communist China, North Korea, and North Vietnam. (See the map, Figure 1, following p. 2.)

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a modest reorientation of economic objectives away from the exclusive concern with the Soviet-inspired rapid development of heavy industry which characterized the 1950-53 period. The emphasis upon the expansion of metallurgy in spite of an inadequate resource and power base and the diversion of resources into capital investment instead of consumption has led to balance-of-payments difficulties, undesirable high production costs, a serious weakening of agriculture, and unsatisfactory improvement in living standards. Economic reforms of the last 3 years have only partially alleviated the situation.

Political factors created instability in intra-Bloc relationships in 1956. The old order of interrelationships had been premised upon the existence of undisputed Soviet authority. With Stalin's death and the partial liquidation of his apparatus of terror, direct Soviet dictation of Satellite economic policy became less feasible, and Soviet control became more diffused. In addition, changes in the pattern of central control within the USSR and a growing preoccupation with internal problems were not unmarked in the Satellites. When a series of speeches intended for Western consumption stated that the Leninist principle was one of "many roads to socialism" and that rigid adherence to the Soviet model was not necessarily warranted, an opening was created for the Satellites to press for greater autonomy in economic policy than was contemplated in the then-current Soviet plans for Bloc economic coordination.

By early 1956 the countries of the Soviet Bloc were completing details of a set of coordinated economic plans by which the Satellites would continue to industrialize, but on the basis of increased specialization of production. The period 1956 through 1960 was seen as a period of transition preparatory to the operation of the Bloc economy under a more integrated master plan covering the period 1960 through 1975. Completion of the transition according to the original plans would likely have meant reduction of the degree to which the Satellite states could determine economic policy on an independent basis.

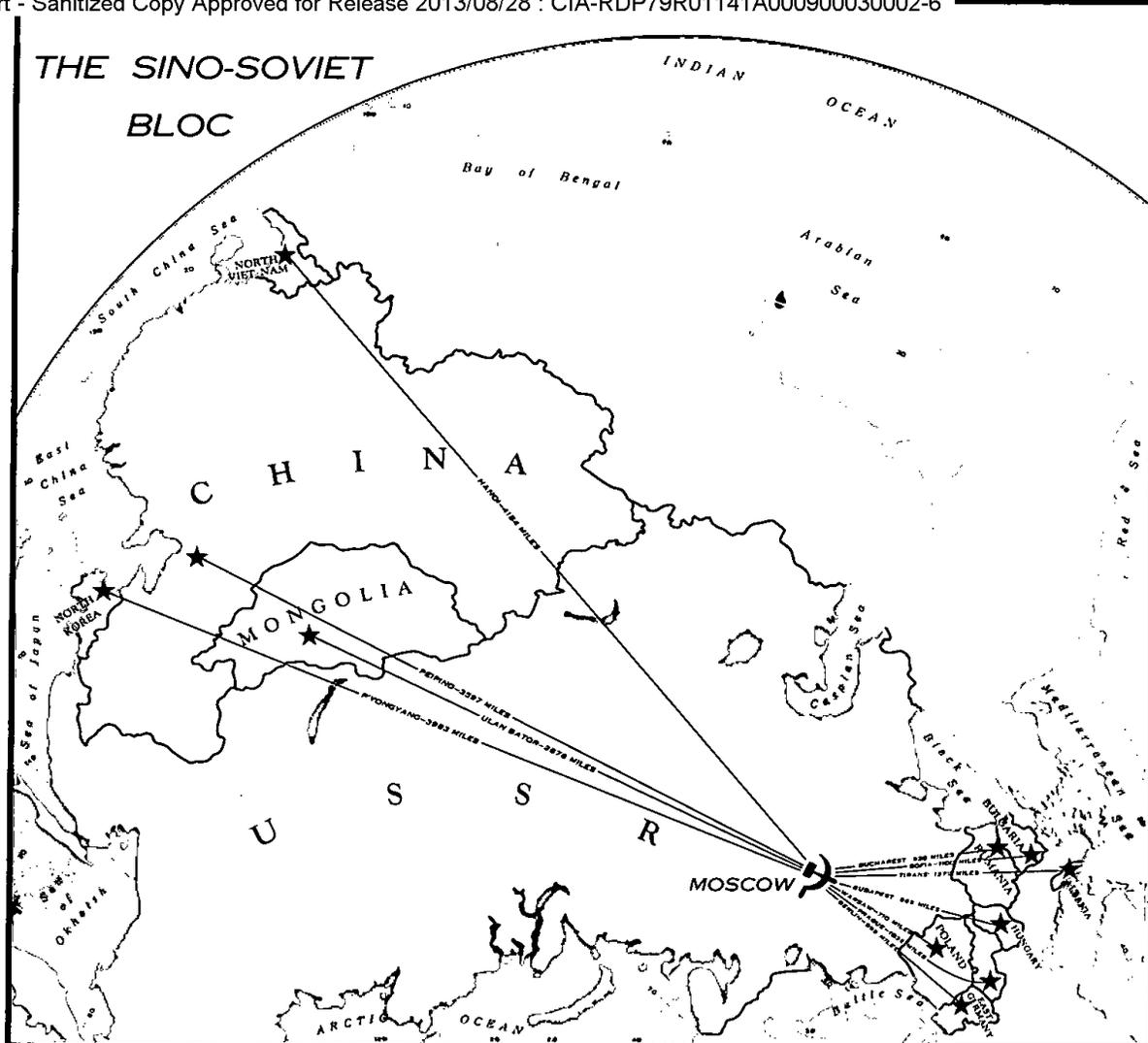
All factors combined to lead significant Party and non-Party elements in Poland and Hungary to try to gain greater independence of the USSR in late 1956. There was discontent created by economic policies imposed by the USSR, there was discontent created by national pride, there was leadership for the political expression of the discontent, there was the weakening of Soviet authority implicit in the de-Stalinization campaign, and there were the examples of Yugoslavia

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Figure 1

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and the misinterpretation of the Moscow line of "many roads to socialism." Poland succeeded, at least for the moment; Hungary did not. The USSR demonstrated that it would use armed force to prevent any further apostasy, and the other Satellites remained "faithful."

Subsequently, the government of the USSR has taken action designed to stabilize the situation, at least for the present. It has permitted reduction of the Satellite 1960 Plan targets and a slowing down of industrialization. It has supplied immediate assistance designed to maintain the Satellite economies and to alleviate discontent. It has begun to exercise subtle pressure on Poland to convince that country of the "wisdom" of maintaining its economic relations with the Bloc. It has supplied relief to Hungary. It has disavowed Yugoslavia as a proper economic model for the Satellites. Yet even granting the immediate success of these measures, several facts confront the Soviet officials. First, the Satellites have become more costly to the USSR in an economic sense, although this does not necessarily imply that they are in toto an economic liability. Second, Soviet authority in the Satellites now rests more obviously upon Soviet military power. Third, the spirit of nationalism lies smoldering. And, finally, the present economic policies being undertaken by the Satellite governments do not offer great prospect of substantial long-term improvement in living standards. To these factors must be added the obvious instability of present political and economic relationships, wherein the Hungarian economy is a liability that must be held and the present Polish regime is tolerated as a necessary evil which prevents greater evils. The USSR has lost a great deal of initiative in Eastern Europe and can be profoundly affected by events which may be largely out of its control.

Under these circumstances the Council of Mutual Economic Assistance (CEMA) plays a different role at present from that originally foreseen. In late 1955, CEMA was to provide the coordinating mechanism for a Bloc-wide economic buildup, in economic competition with the West. After the revolt in Hungary the support of "coordination" by the Soviet Army became more obvious than had been intended, and the more important economic relationships were negotiated on a bilateral basis between the individual Satellite and Moscow. CEMA operated in a much less positive capacity, however, until quite recently when a multilateral clearing system was organized in the Bloc. Multilateral economic relations (including a multilateral clearing system) can be made to seem necessary to Poland and are apparently being used as a mechanism for reconsolidating Soviet power over Poland and the other Satellites.

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Soviet economic relations with Communist China are also entering a transitional phase. The growth of a powerful Chinese industrial complex in Northeast China, adjacent to relatively underdeveloped Soviet areas, has improved the bargaining power of Communist China. Nevertheless, Communist China continues to be dependent upon shipments of machinery and equipment controlled by the USSR. In the not-too-distant future, Communist China hopes to be able to reduce its dependence upon imports from the USSR and to satisfy more of its needs from domestic materials and manufacturing.

In many respects it can be seen that the massive unity of the Sino-Soviet Bloc is an exaggeration. There is, however, an impressive aggregation of economic power which has supported the military preparations of the USSR. Although the data appear to show an obvious economic superiority for the NATO powers over the countries of the Sino-Soviet Bloc, this superiority is less clear cut when military power is considered. A substantial proportion of the resources of the West is consumed in maintaining and increasing living standards. The Sino-Soviet Bloc, on the other hand, devotes a much higher share of its resources to military purposes and to expansion of the economy. Table 1 shows production in the Sino-Soviet Bloc relative to production in the US and the NATO countries.

Table 1

Production in the Sino-Soviet Bloc  
Relative to Production in the US and the NATO Countries  
1956

<u>Product</u>	<u>Percent of US</u>	<u>Percent of NATO Countries</u>
Hard coal	112	55
Electric power	43	26
Crude petroleum	27	25
Crude steel	65	37

In 1955 and in early 1956 the Soviet leaders apparently thought they had time on their side. They were hopeful of maintaining growth

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of industrial production at rates significantly higher than in the NATO countries, they were encouraged by signs of division among the NATO powers, and they were confident of their ability to maintain a reasonable unity of the Bloc for their most vital political and economic aims. At the Twentieth Party Congress in Moscow in early 1956 a clear challenge was issued for long-term economic competition between the Communist world and the Free World.

Subsequent events in late 1956 caused extensive reexamination of the aims and methods of policy, both economic and political. It is important to note that the performance of the domestic economy as well as intra-Bloc relations has been of concern to the Soviet leadership. By mid-1957, new programs had been formulated, or were in the process of formulation, which combined some measures purely expedient (such as economic assistance to the Satellites which was remedial but not preventative of further afflictions) and some measures of potentially far-reaching effect, such as a basic reorganization of Soviet industry and construction. In many important respects, such as the long-term development of resources in Siberia, the USSR has not sacrificed long-term economic expansion in favor of an immediate gain. The USSR and its allies appear to have modified their program for long-term economic competition with the Free World, but the program does not appear to have been abandoned. The question remains, Are the present programs consistent with the forces of change operating within the various economies and societies of the countries of the Sino-Soviet Bloc?

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I. USSR.

A. Introduction.

Although the direction of Soviet economy is so organized as to make it responsive to the policy decisions of the Communist Party, the very size and complexity of the economy limit the flexibility of response to policy changes imposed from the top. As a result, unless grave mistakes are to be made, decisions in the economic sphere must be based not on arbitrary direction but on knowledge and an understanding of the economy. This places a great premium on the management and planning functions. The price of poor planning and management

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becomes excessive production cost, strain upon raw materials supplies, nonfulfillment of production and investment plans, failure to meet quality standards, and laggard introduction of new technology.

Under the new leadership (post-Stalin), problems of decision-making and of incentives have been discussed with greater frankness and less attention to Stalin-era dogma. Housing construction and agriculture have both been given higher priority in resource allocation than ever during the Stalin era, and the regimentation of the populace has been reduced. A drastic reorganization of the Soviet economy is being effectuated (1957). A substantial program of development is being begun in the Asian areas of the USSR in an effort to broaden the resource base needed for future economic growth.

Economic reforms are not irreversible-and the economy could conceivably be once again shackled in the old bonds, yet it would be dangerous and costly to do so. Unless a wartime fervor could be restored, the only path for the USSR in the present economic competition between East and West is to secure more cooperation from the individual peasant and worker, whose increased productivity is essential to future Soviet growth.

The Soviet system is full of contradictions and dilemmas, whose successful resolution cannot be predicted. Economic decision-making at all levels is crucial to the successful development of the economy, yet adequate criteria for sound decisions are lacking. The economic system is directed from the top, yet depends on the efforts of the lowest worker and peasant. He, in turn, is expected to put out maximum effort, but not to demand too much in the way of material gain. Prices of industrial goods must be related to costs, yet prices which are low relative to demand result in shortages. Overfulfillment of production plans is encouraged, yet overfulfillment on one activity may result in underfulfillment elsewhere. Education must stimulate creative thought in science and in industry, and yet not endanger the stability of the regime. The USSR can derive economic gain from increased foreign trade yet cannot risk overly great dependence on foreign source of supply.

The presidium of the Communist Party is at the apex of the economic administration of the USSR. Once the policy decisions are made by the presidium, general directives are issued by the Council of Ministers. Party control of the governmental mechanism is ensured through key Party members who are also top officials of government.

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Until early 1957, the planning function was exercised by Gosplan (long-term) and Gosekonommissiya (short-term) and the control function by the Ministry of State Control, the Central Statistical Administration, and the State Bank (and the various specialized banks).

The implementation of economic policy has been the responsibility of functional economic ministries (organized mostly along industrial lines) which have been subordinated to the Council of Ministers. There are three types of such ministries: (1) the All-Union ministries, which are those of overriding national significance, such as the Ministry of Defense; (2) the union-republic ministries, which are republic counterparts of a ministry at the union level and occur commonly where there is an unusual concentration of a type of activity in one or two republics, such as nonferrous metallurgy in Kazakhstan and coal production in the Ukraine; and (3) the republic ministries, such as the various ministries of local industry, which are concerned with the local economic affairs of each republic and for which there is no corresponding ministry at the union level.

During 1955 and 1956 a considerable share of Soviet industry was transferred to republic control, generally in the form of union-republic ministries. This was an attempt to move intermediate policy decisions closer to the field, but it did not go far enough to redress glaring management problems imposed by sheer distance. Each functional ministry tended to operate in its own little vacuum without considering the impact of its own shortfalls or nearsightedness on other ministries. Particularly during the first phases of the present program for Eastern development, it became apparent that there must be more adequate provision for coordinated regional development. Khrushchev in early 1957 recommended substantial abandonment of the former organizational system and a reorganization of the economy along regional lines, with the power previously centered in functional economic ministries to be transferred to regional economic councils.

In May 1957 the Supreme Soviet approved the basic outline of Khrushchev's proposals, and on 2 July 1957 a Pravda editorial called upon the new regional economic councils to begin their tasks. It is premature to predict at this time how well the 105 councils will operate and what their success might be in solving the pressing management problems of the national economy. It is noteworthy that the Gosplans of the individual republics will assume a major role of coordination and that a great attempt is being made to preserve the central government as the source of basic determination of policy and as the point of central control.

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B. Geographic and Regional Characteristics.

The immense land mass of the USSR makes available rich natural resources to the economy; yet it is not a blessing unmixed with vexations. The resources needed for future expansion of the economy lie deep in Asia, far distant from the main population center of the country. In future years the USSR will become more of an Asian power -- as industry, the labor force, and the consuming population move inexorably eastward.

The resources of the USSR have made possible substantial realization of its dream of relative self-sufficiency. Nevertheless, the very distance between its population center and its future sources of power and raw materials, a distance which must be covered by expensive overland transport, may compel the USSR to give greater emphasis in the future to foreign trade, at least as a temporary measure until its Asian development is well under way.

The costs of transport imposed by distance have been a source of concern to Soviet planners. Present policy is attempting to reduce possible transportation burdens by basing economic development on local resources and by reducing regional interdependence in bulk commodities. Despite such effort, the average length of haul per ton of commodity carried by railroad has increased from 496 kilometers in 1913 to 727 in 1950 and to 791 in 1956.

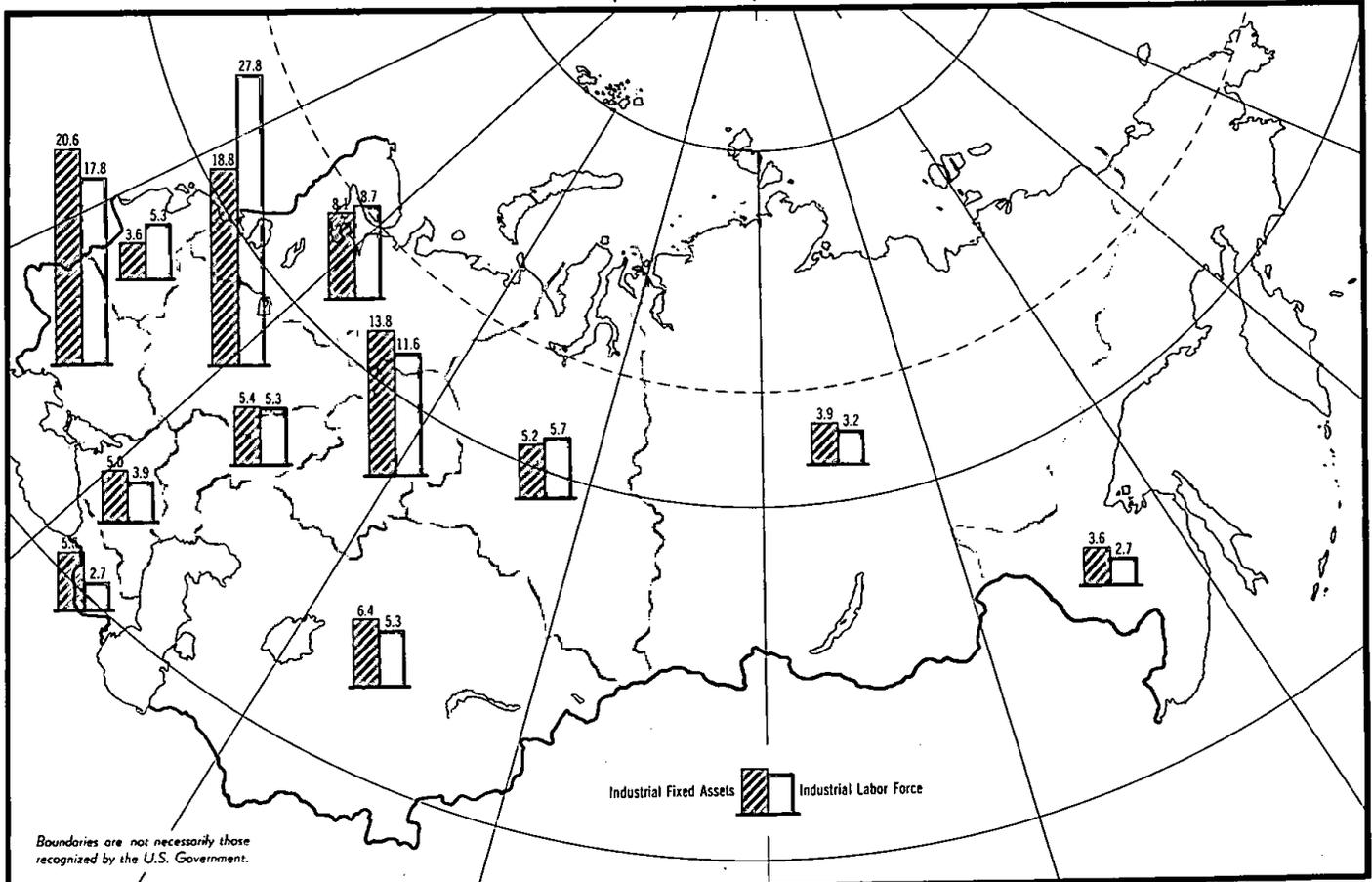
The industrial strength of the USSR is presently concentrated in the European areas of the USSR as shown in Figure 2.\* In 1956, approximately 40 percent of manufacturing activity, 50 percent of agricultural activity, and 50 percent of services (including transportation, communications, trade, and construction) were located in the central industrial district (including Moscow) and the Ukraine. The third major concentration of economic activity was in the Urals. In the future the Asiatic regions of the USSR will gain in importance -- the "new lands" program has already shifted Soviet agriculture to the east, and the Sixth Five Year Plan postulates a massive plan for economic development in the east, with nearly half of Soviet capital investment to go into the area including the Urals and to the east.

The USSR includes vast areas of little or no productivity. Much of its territory lies further north than the northern boundary

\* Following p. 8.

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### DISTRIBUTION OF INDUSTRIAL FIXED ASSETS AND INDUSTRIAL LABOR FORCE, BY REGION, 1955 (Percent of Total)



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of the US. Only 10 percent of the land is available for cultivation (16 percent if meadows, grasslands, and pastures are included). West of the Urals, 40 percent of the land is utilized for agriculture. In the Ukraine, 60 percent of the land is under cultivation. In Soviet Asia, only slightly more than 5 percent is farmed at all, permafrost and short growing seasons restricting agriculture. During 1954 to 1957 the USSR has made great efforts to increase the area under cultivation and has expanded grain culture into the "new lands" area of Kazakhstan and Siberia. This is "opportunity" farming country, giving good harvests in those years when rainfall is good but subject to drought. The expansion is partially based on the unlikelihood of suffering simultaneous drought in the "new lands" and in the Ukraine.

Despite large areas of poor soils, of swamp, of desert, and of severe cold, the USSR has the largest area of fertile chernozem in the world -- 754,000 square miles. These soils, rich and deep, have high humus and are only slightly leached, being located in areas of moderate or light rainfall. In general, however, crop yields are not as high as they are in the US, and in the area of dry-farming they are appreciably lower. Timber resources, on the other hand, are the largest in the world, covering an estimated 2.45 million square miles. Mineral resources are abundant.

The USSR has encountered grave problems in the establishment of its transportation system -- problems of space, of rivers that flow north when the transport requirement is east-west, and of capital. In the European areas, where the river locations are more favorable, extensive use is made of water transport. The railroad system, although only one-third the mileage of the US system, moves a great bulk of traffic efficiently. Air transport is becoming increasingly important, and the USSR is proud of its commercial jet airliners.

C. Structure and Growth of the Economy.

In 1956 the Soviet economy was about 40 percent the size of the US economy, measured in terms of the total output of goods and services (GNP). The end use breakdown of the Soviet GNP in 1956 is shown in Figure 3.\* Soviet defense outlays were approximately equal to US defense expenditures, compared on the basis of appropriate ruble-dollar conversion ratios. Administrative outlays were almost one-fifth greater than in the US. Investment expenditures were about 57 percent

\* Following p. 10.

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of those in the US. In contrast, Soviet consumption, for a population 20 percent larger than that of the US, was only about one-third as great as US consumption.

During 1951-55, Soviet GNP grew at an average annual rate almost double US experience during the same period. At the present time, growth is at an average annual rate of 7 percent per year but may fall appreciably by 1962. The comparable US figure was approximately 3.8 percent per year during 1951-55.

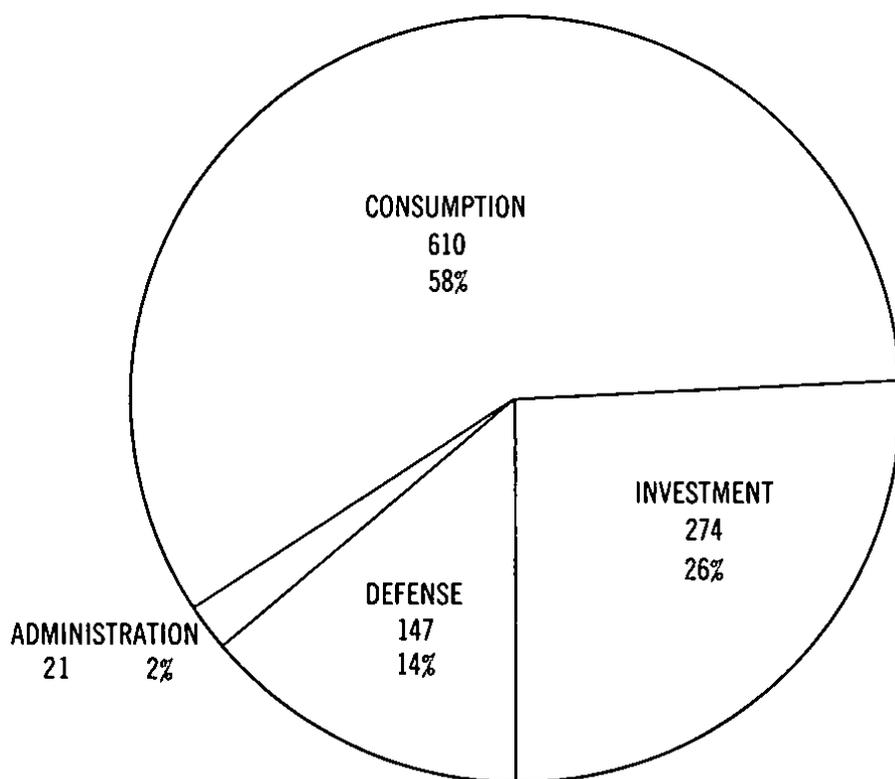
The maintenance of the highest possible growth rate in the future is a basic aim of present Soviet economic policy but presents great problems. Because of changes in political aims and increased emphasis on worker motivations, for example, greater attention is now placed on an increase in consumption levels, especially in housing, but this draws on resources that could be used for industrial expansion. (The point where the diversion of resources from industrial investment outweigh the productivity gains stemming from improved motivation of the Soviet worker is not known.) Furthermore, both military expenditures and foreign economic commitments such as aid to Hungary draw on resources needed for growth.

The theoretical problems associated with economic growth have stimulated extensive Soviet discussion of the process of decision-making. What price structure acts as the best stimulant to growth unimpeded by either gluts or shortages? What are the best criteria for deciding among investment alternatives? What are the economic gains from foreign trade? When should capital equipment be retired and what weight should be given to obsolescence? How can innovation and technological advance be stimulated? How can specialization and subcontracting be encouraged? What should be the goals for an increase in living standards?

These and similar questions have long been discussed in Western economic literature, but only since the death of Stalin have the questions been discussed in Soviet literature with such intensity. The intensity bears witness both to the complexity of problems now encountered and to a new flexibility of response. Whether the answers can be found through a mere adjustment of Marxist-Leninist ideology remains to be seen.

# USSR GROSS NATIONAL PRODUCT BY END USE 1956

*(1,052 Billion 1955 Rubles)*



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D. Population and Manpower.

The population of the USSR was about 200 million in mid-1956. It is growing at a rate of slightly more than 1.7 percent per year. Of the total population, about 64 percent are in the age range of 15 to 59 years.

Starting about 1958, the USSR will experience a period of relatively slow natural increase in the labor force which will last for several years. This will be the result of wartime population losses, when infant mortality was high and the birthrate was low, and of a prolonged postwar period during which the birthrate continued to be low. In contrast to the past, labor will become a resource to be husbanded carefully. The reduction of the armed forces which occurred in 1955, 1956, and 1957 made available manpower needed by the economy. A host of measures designed to increase the productivity of the individual worker reflects an awareness of this problem.

Before World War II, when the labor supply available to industry was inadequate, labor resources were shifted from agriculture to industry with relative ease, as agricultural labor productivity was so low as to indicate underemployment of agricultural labor resources. Now, virtually the only way to transfer labor resources from agriculture to industry without impairment of agricultural production goals is to greatly increase labor productivity in agriculture through mechanization, development of high-yield crops, and similar measures.

The rapid growth of Soviet education is expected to continue in accordance with the demands of the times for highly trained personnel. High school attendance, involving raising the total number of school years to 10, is to be compulsory by 1960. Higher education, especially in the sciences and technical subjects, continues to flourish.

E. Agricultural Production.

Soviet agriculture has been the problem sector in the Soviet economy from the very beginning of the Communist regime. With a rapidly growing population and with the soil and climatological conditions prevailing in the USSR, it has been a constant battle to increase food production to levels sufficient to maintain per capita consumption levels. The emphasis upon heavy industrial investment and upon industrial production in general has been to the relative

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neglect of agriculture. Since 1953 the concern of Soviet leaders over agriculture has produced specific programs designed to expand agricultural production through greater investment and through expansion into marginal lands. Despite all efforts, however, agriculture continues to be a weak point in the Soviet economy.

Soviet agricultural growth is circumscribed by certain limiting factors of climate, soil condition, and water resources which limit the arable area of the country to some 10 percent, as compared with 25 percent in the US. In addition, political and institutional factors have produced inefficiency, passive resistance from the peasants, and a great waste of investment and labor resources. Since 1953, there have been bold assaults on virtually all factors limiting agricultural output, culminating in an extremely successful harvest in 1956, thanks to timely assistance from the weather. Many constraints on output still exist, but new approaches and programs may be expected. There is every indication that the USSR intends to improve agricultural output, primarily by investing more capital, by improving the level of technology, and by increasing incentives to the agricultural labor force. These efforts are not likely to be as successful as planned but nevertheless are likely to produce an improvement in the quality of the Soviet diet by 1960.

F. Industrial Production.

The industrial economy of the USSR is second only to that of the US. The subordination of the economy, within limits, to the requirements of the Communist Party and of the Soviet state makes it a more powerful instrument in support of the Soviet power position than indicated by a direct comparison of the size of the Soviet economy in comparison to the economy of the US. Generally speaking, a higher proportion of the industrial production of the USSR could be mobilized more rapidly in support of military or political programs than could be done in the US. This is a consequence of the Soviet system, and it is thus a benefit to the Soviet power position which is costly to the Soviet people. Nevertheless, the might of the Soviet economy must be respected even as the weaknesses are examined.

In 1955 the Soviet economy was stronger in the sinews of war than the economy of the German Reich at its peak. Soviet coal production in 1955 matched German coal production in 1939; extraction of petroleum was almost 80 times as much as extracted in Germany in 1939 (excluding Austria); crude steel, two times as much; and electric power

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more than 2-1/2 times as much. But in 1955 the Soviet economy was not as strong, measured in these terms, as the wartime economy of the US in 1945. Its coal production was 62 percent of the US production in 1945; petroleum extraction, 31 percent; crude steel, 63 percent; and electric power, 75 percent. Nevertheless, the present-day Soviet economy is adequate to maintain a major war effort, and Soviet military technology has achieved a high proficiency.

Soviet industry has been characterized by growth more rapid than the present growth of US industry; thus the size of Soviet industry relative to US industry has been increasing throughout the years. Whether the USSR achieves its announced long-term intention of overtaking the US in the per capita production of the more basic industrial commodities depends on many factors. The rate of growth of Soviet industry has been slackening. The moderate but steady growth of the US economy may make the goal difficult to achieve, but interruptions to the growth of the US economy, such as prolonged recessions, would simplify the task for the Soviet economy.

Comparisons of the size and rate of growth of Soviet industry with the US economy are made difficult by the fact that the USSR utilizes a different measure of industrial production and uses different indexes of industrial growth. In addition, complex technical problems are created in the comparison of ruble valuations of Soviet economic activities with comparable activities in the US, measured in dollars. A continuing effort is being waged by government analysts and by academic scholars to improve the quality of international economic comparisons.

It has been estimated that Soviet heavy industry, which has been the court favorite of Soviet economic policy, was about one-third the size of US heavy industry in 1955 and will increase its proportion to some 40 percent by 1960. From 1951 through 1955, according to CIA indexes, Soviet industry grew by 77 percent; heavy industry, by 84 percent; and light industry, by 54 percent. From 1956 through 1960, according to the Soviet index, the planned growth of industry is 65 percent, which is significantly below the 85 percent claimed for 1951-55.

Soviet industry is now encountering significant constraints to the rate of future growth. Some of these constraints are temporary, others less so. During 1958-60 and throughout the Seventh Five Year Plan (1960-65), additions to the labor force will be in smaller numbers

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as a consequence of the low birthrate of the war years and the immediate postwar period, and of wartime infant mortality. At the present time, the construction industry is handicapped by such factors as organizational problems, shortages of construction materials, and high turnover rates among construction laborers. Problems of technology and of motivations tend to prevent realization of the long-term plans to increase the productivity of labor.

The patterns of industrial development are displaying some significant changes. The USSR plans to increase substantially the rate of growth of chemicals output, in contrast to the surprisingly low growth rate during 1951-55. The growth rates for energy, construction materials, and forestry products are to continue more or less undiminished. It is planned, for instance, to increase by 1960 electric power output 88 percent over 1955, which is an absolute expansion of 150 billion kilowatt-hours in comparison with a gain of 80 billion kilowatt-hours during 1951-55. The rates of growth for metals, machinery, metal fabricating, and consumer goods will slacken during the Sixth Five Year Plan. The machinery and metalworking branch of heavy industry, however, will continue to grow at a rate substantially higher than industry. Expansion of transport facilities and communications continues at a rate commensurate with the requirements of the Soviet economy although the investment effort in these fields has not been remarkably large by US standards.

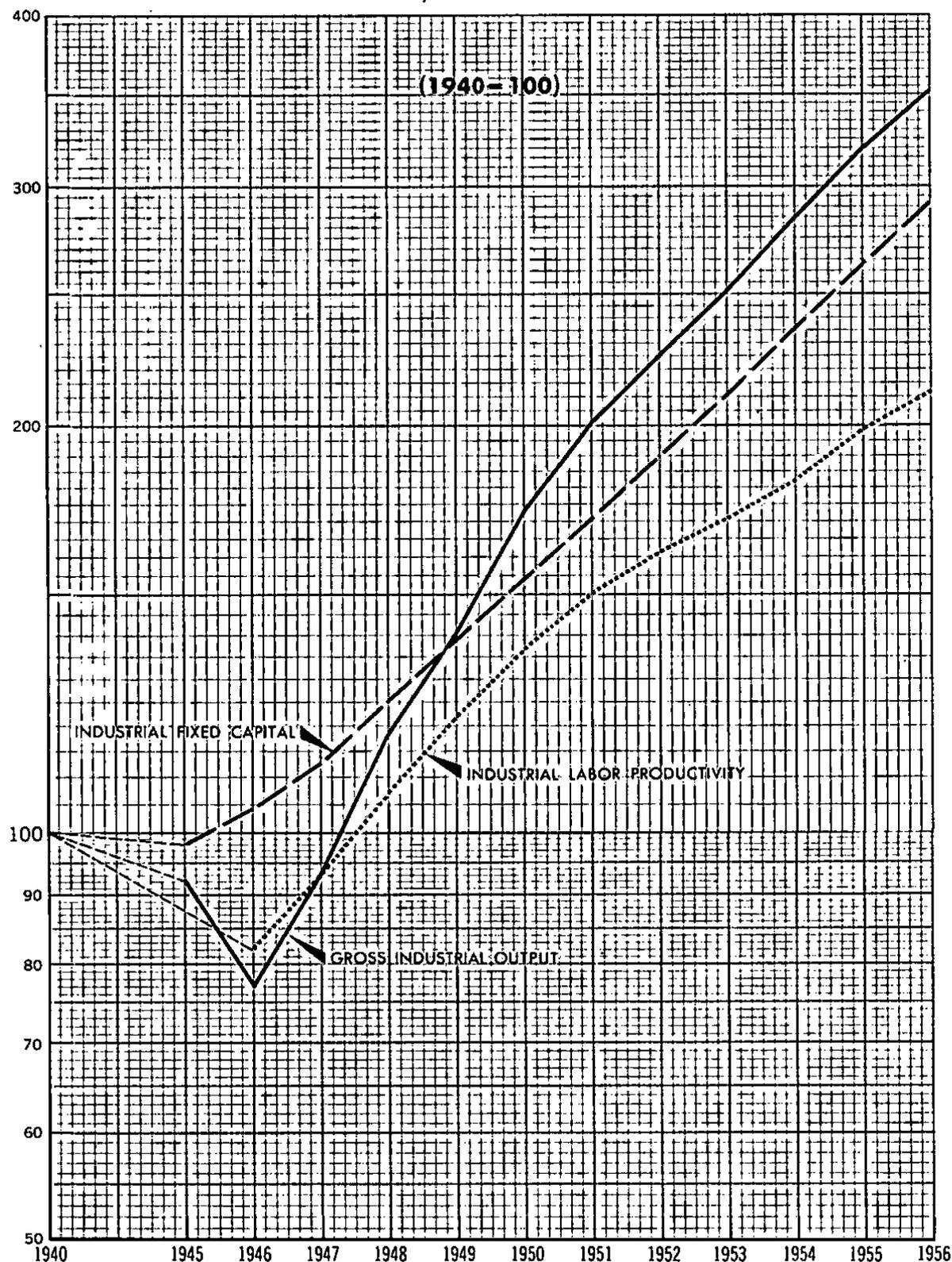
The slackening of the rate of growth of industrial output is revealed in Figure 4.\* The same figure also shows that from 1946 through 1950 more effective utilization of the labor force was a powerful factor in maintaining growth of output. This is a pattern to be expected during a period of recovery from a great war; the number of people in need of employment is greater than the amount of plant and equipment at hand. Since 1950 the expansion of plant and equipment (fixed assets) has been more rapid than the increase in labor productivity.

Since the end of World War II, Soviet defense expenditures have been maintained at a high level. In terms of the dollar equivalents, Soviet defense expenditures in 1955 were approximately equal to US defense expenditures. In 1956 the planned explicit Soviet defense expenditures were to be 8.6 percent lower than the allocation of the preceding year (1955). As this comparison was not made in comparable prices and was exaggerated by the effects of a price

\* Following p. 14.

Figure 4

### USSR: TRENDS IN INDUSTRIAL OUTPUT, INDUSTRIAL LABOR PRODUCTIVITY, AND INDUSTRIAL FIXED CAPITAL 1940, AND 1945-56



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reduction, it remained possible that, although there was some reduction of the size of the armed forces in 1956, expenditures on military end items actually increased.

G. Foreign Trade.

The USSR, which is endowed with abundant resources, is virtually a self-contained economy for which foreign trade is not as vital to existence as is the case in the UK, or even Czechoslovakia. After a crucial period which terminated in the early 1930's, during which expansion of the Soviet economy was largely dependent upon imports of foreign capital equipment, the Soviet authorities openly pursued a course of basic self-sufficiency. The motives for this course were as much political as economic.

In recent years, new political and economic factors have resulted in a significant expansion of Soviet foreign trade which will probably continue in future years. Following World War II, the USSR acquired its European Satellites, and its economic relations with these countries led to a great expansion of trade in 1948. Trade with the European Satellites was almost double total Soviet trade in 1938, and by 1956 trade with the Satellites and Communist China increased to four times the 1948 level. Total foreign trade in 1956, as shown in Figure 5,\* was more than 27 billion rubles (1950 US \$6.9 billion\*\*) compared with 10 billion rubles (1950 US \$2.6 billion) in 1948 and 2 billion rubles (1950 US \$0.5 billion) in 1938. Of the total trade, more than 75 percent was with the countries of the Sino-Soviet Bloc in 1956 compared with more than 50 percent in 1948. (In 1953, 82 percent of Soviet trade was with Bloc countries.)

Machinery and equipment play a leading role in Soviet foreign trade. Trade in this category comprised 33 percent of Soviet imports and 22 percent of Soviet exports in 1955. The USSR has been a net importer of machinery and equipment, although the volume of its exports of these items has been increasing. It imports machinery and equipment from the industrialized nations of the Free World, and from the industrialized Satellites. It exports to Communist China, the underdeveloped European Satellites, and the underdeveloped Free World countries. For East Germany and Czechoslovakia, exports of

\* Following p. 16.

\*\* All dollar values in this report are in US dollars, unless otherwise indicated.

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machinery and equipment and metal-fabricated products amount to 75 percent of their total exports to the USSR. Conversely, machinery, equipment, and metal-fabricated products comprise some 78 percent of Soviet exports to China. Generally speaking, the USSR imports specialized types of machinery and equipment and exports more basic types of machine tools, transportation equipment, and industrial installations. The imports are important to the improvement of the technological level of Soviet industry; the exports are important to the development of the Sino-Soviet Bloc economies and to the expansion of Soviet trade into new market areas.

Although in the years before World War II the USSR was primarily an exporter of agricultural products, the recent advance of Soviet industry and the comparative retardation of Soviet agriculture have led to basic shifts in the Soviet export pattern. Raw materials and petroleum products are now the leading Soviet exports. There is also a distinct trend, portentous for the future, for Soviet exports of machinery and equipment to increase. This would appear a natural development in view of the rapid expansion of production of machinery and equipment which would probably shift the USSR into a position of comparative advantage in exporting machinery and equipment, given the development of satisfactory foreign markets. At present the underdeveloped countries are being developed as a market, yet it is possible that other markets may be required, both in terms of ability to absorb Soviet goods and to supply goods desired by the USSR.

In general, the USSR exports foodstuffs, industrial raw materials, and some industrial equipment to the Satellites. In return it receives machinery, transportation equipment, and raw materials (including uranium ore). In response to the growing economic crisis in the Satellites, the USSR in late 1956 and in 1957 increased its export commitments to the Satellites in an effort to promote economic stability there. These shipments, which consisted of coal, steel products, iron ore, nonferrous metals, and grain, tended to aggravate domestic Soviet economic difficulties connected with the relative shortage of many of the same commodities. In addition, Polish exports of coal to the USSR were reduced. In its trade relationship with the European Satellites, the USSR possesses preponderant economic power, as shown in Figure 6.\*

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\* Following p. 16.

**USSR: GEOGRAPHIC DISTRIBUTION  
OF THE VOLUME OF FOREIGN COMMODITY TRADE, 1948 and 1950-56**  
*(In billions of 1950 US dollars)*

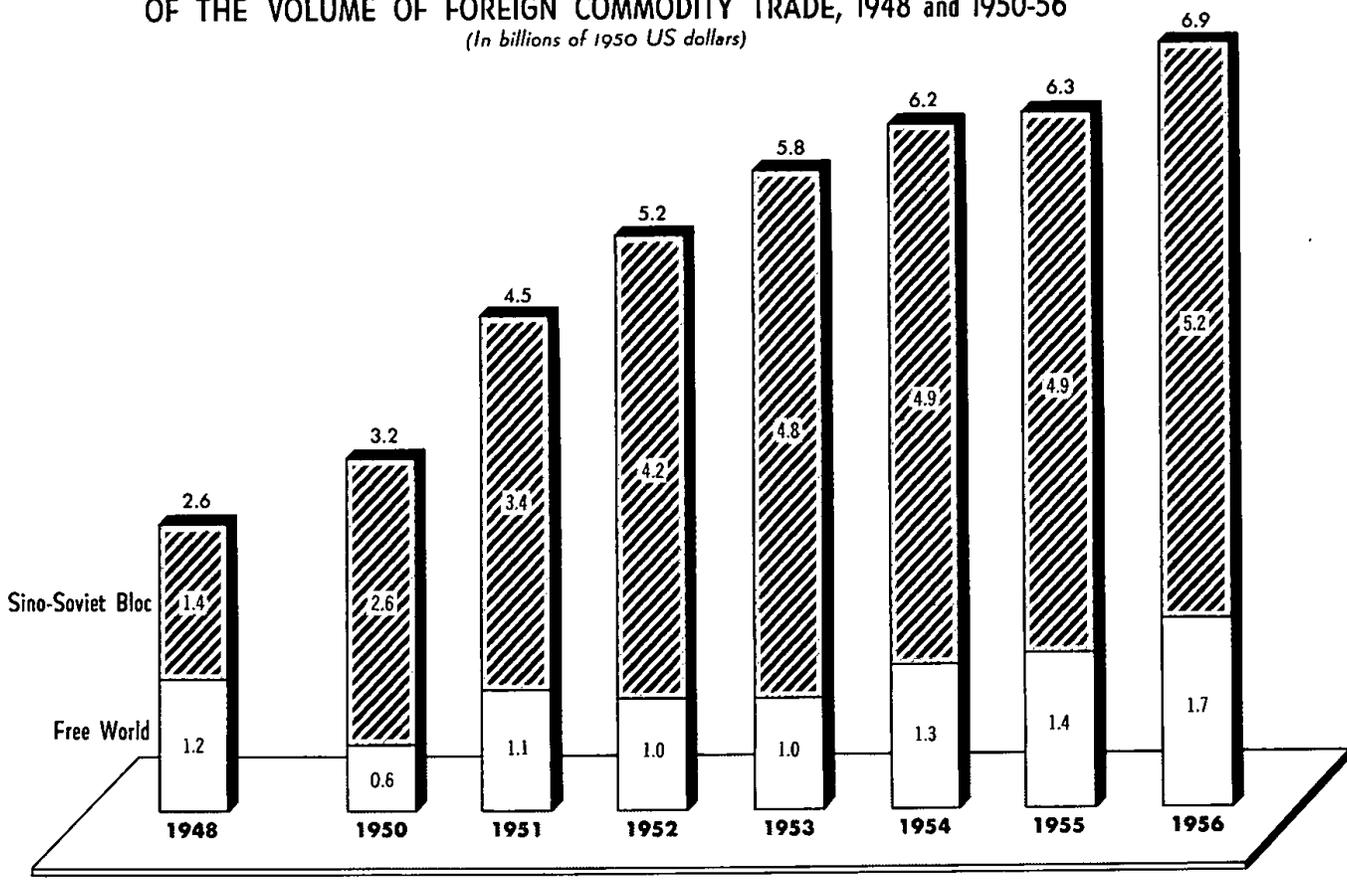
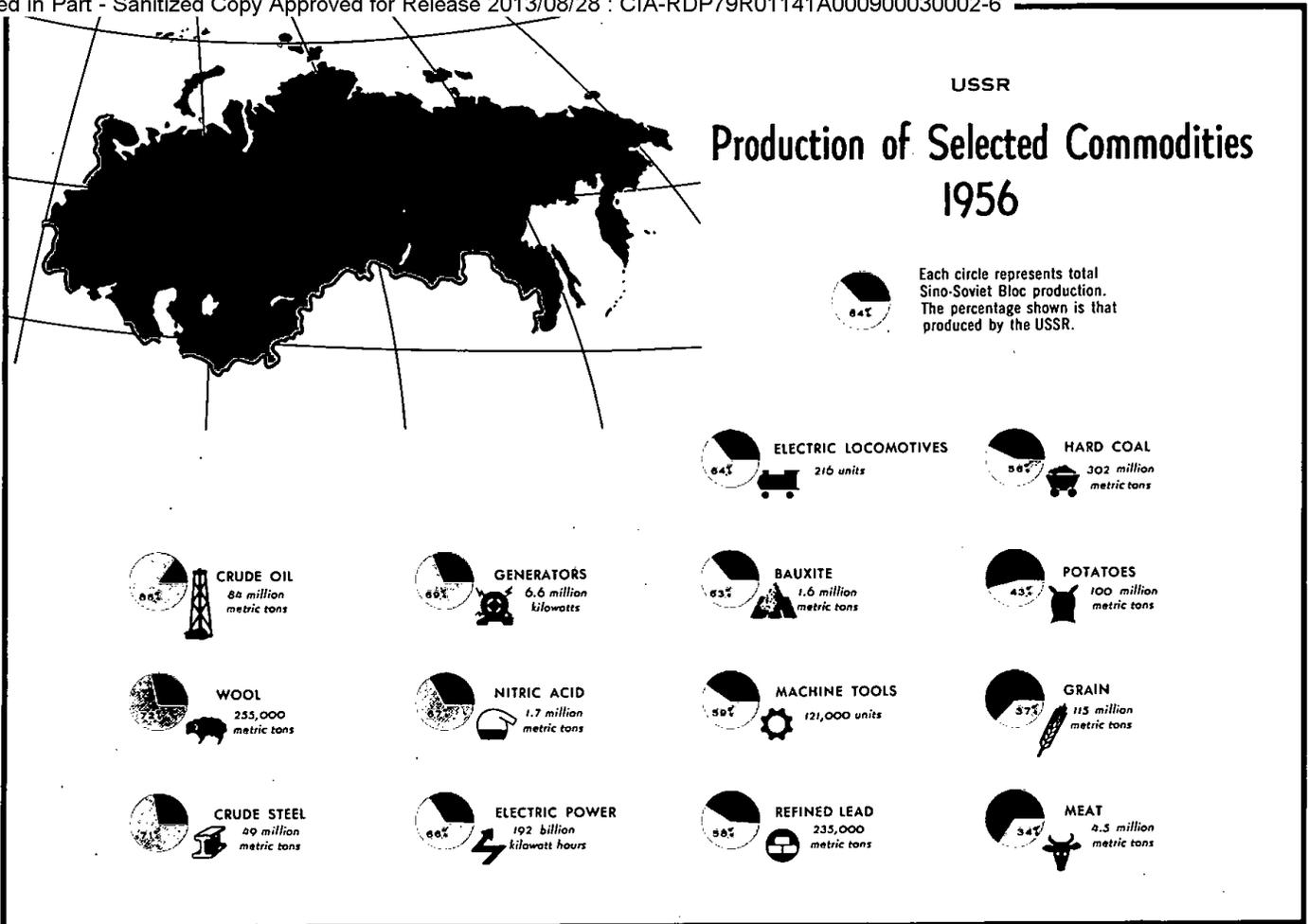


Figure 6

50X1



50X1

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Soviet trade with Communist China consists largely of Chinese exports of agricultural products and nonferrous ores in exchange for military and industrial equipment and technical assistance.

II. European Satellites.

A. Introduction.

The question of whether the European Satellites are a liability to the USSR cannot be answered on the basis of economic considerations alone but must reflect also the political and military considerations which govern the foreign policy of the USSR. In an economic sense the Satellites do present problems to the USSR. The industrialization of the Satellites has outstripped their domestic resource base, and the USSR presently supplies iron ore, ferrous and nonferrous metals, petroleum products, and large quantities of agricultural products, especially grains.

As the Soviet economy is somewhat strained by an inadequate immediate supply of fuels and raw materials, it can be argued that support of the sagging Satellite economies increases the strain upon the domestic Soviet economy. On the other hand, the USSR imports products manufactured from many of the materials it has supplied, and in effect, avails itself of the productive capacity and skilled labor of the industrialized Satellites. In the past, when the Satellites were often exploited flagrantly, the Soviet economy gained substantially by this trade pattern. In recent years, and especially in late 1956, the USSR has had to pay a higher price for its imports, in terms of an increasing volume of exports. If the terms of trade do not now prove as favorable to the USSR, the cost of its economic relations with the Satellites may nevertheless prove a sound political and military investment.

The various countries identified as the European Satellites -- Albania, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Rumania -- were brought into the Soviet sphere of influence during and following World War II by means now familiar. Since 1948 these countries have been under Communist Party control politically, and the economic resources of these countries have been utilized subject to Party control. In many instances, however, the USSR has utilized much more direct and blatant forms of economic control, such as "joint ownership" of industrial property, reparations, and direct supervision by Soviet experts and supervisors. Although the more

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direct and obvious forms of control have been disappearing from Soviet-Satellite economic relationships, Satellite economic policy tends to remain responsive to Soviet direction and to Soviet interest. At the present time, Poland has achieved somewhat greater autonomy of economic policy than the other Satellites.

The Council of Mutual Economic Assistance (CEMA) provides the USSR with an important mechanism of coordination and control over Satellite economic policy. CEMA was created in 1949, largely as a Soviet expedient to counter the Marshall Plan, which had been set up in Western Europe. It has a Council and a permanent international Secretariat in Moscow. Its stated purpose was to channel Soviet aid to the peoples democracies of Eastern Europe and to promote cooperation among "equal partners" of the Soviet Bloc. CEMA has acted in various fashions at various times, in response to changing Soviet policies. At times it has been dormant, at times an instrument of Soviet control, at times a forum for discussion and negotiation. In sum, CEMA has furthered the economic integration of the USSR and the European Satellites and is presently an instrument for the coordination of economic plans among the USSR and the European Satellites. Detailed joint planning is conducted via an interlocking multitude of binational commissions and committees, such as the Soviet-Czechoslovakian Commission for Scientific-Technical Cooperation, to name but one commission in one sphere of cooperation.

The Soviet policy goal with respect to the Satellites has been to maintain the several regimes in effective control of their economies, and, until 1953, to encourage the rapid growth and industrialization of the economies. After 1953, greater emphasis was placed upon selective industrialization which concentrated on industries more particularly adapted to the resources of the individual countries, and upon specialization of production among the various Satellites. About the same time, Satellite trade with Communist China began to increase significantly. In 1955 the Satellites participated in trade moves that were part of a Bloc-wide plan to intensify trade with the underdeveloped countries of the Free World.

Since World War II, each of the countries in Eastern Europe has undergone drastic changes in its internal political and economic structure. The immediate postwar years were years of political revolution, internal change, and reconstruction of war-ravaged economies. It was not until 1952 that the output of goods and services

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achieved prewar levels. From 1950 to late 1953, primary emphasis was placed on the rapid expansion of heavy industry. Late in 1953, simultaneous with similar changes in the USSR, greater emphasis was placed upon increasing agricultural output and output of consumer goods.

The drafts of the new Five Year Plans to cover the period 1956-60, issued in early 1956, contemplated a notably lower rate of economic growth in comparison with the breakneck speed of 1950-53. Subsequent events in Poland and Hungary have caused further reduction in the rate of growth, as reflected in the 1957 plans and in revisions to the Five Year Plans. Economic conditions continue to be unsettled. Popular resentment smoulders over the slow increase in living standards and grossly inadequate housing conditions. Several countries, notably Poland and Hungary, have serious balance-of-payments difficulties. All the Satellites are concerned with raw material shortages, the declining rate of increase in labor productivity, and inadequate agricultural output. The situation is further unsettled by uncertainty as to economic policies of Poland in relation to the other Bloc countries, by fear of further military action, and by the necessary costs of somehow maintaining the Hungarian economy.

The relationship of the European Satellites to the rest of the Sino-Soviet Bloc in terms of the production of important commodities is given in Figure 7.\*

B. Geographic and Regional Characteristics.

The European Satellites form a strategic buffer zone between Western Europe and the USSR. The seacoasts of Poland, Rumania, and Bulgaria have important ports that are available to the USSR, and command of these coasts has increased Soviet control over the Baltic and Black Seas. The USSR has attained at last warm-water ports, although the Satellite coastlines are on interior seas, but the USSR continues to be without warm-water frontage on major oceans.

The lowlands of Southeastern Europe -- Poland, Hungary, and Rumania -- are suitable to large-scale, mechanized agriculture. In fact, the lowlands of Poland and Rumania are westward extensions of the plains and steppes of Russia and provide easy access to and

\* Following p. 20.

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from the USSR. The central mountain belt of the Carpathians (the Beskids, the Tatras, and the Sudetens) and the Balkans form a protective barrier for the USSR against easy invasion routes from the West. At the same time, the mountainous terrain in the center and south makes transportation difficult both within individual countries and between the USSR and the Satellites. For instance, Czechoslovakia and Hungary have only one direct rail line each to the USSR.

Numerous rivers and lakes provide adequate water supply in general as well as a means of cheap transportation for goods between the Satellites. The important systems of the European Satellites, however, do not connect directly with the USSR, being oriented either north-south or westward. Poland is an exception, having an east-west canal system which does connect with the USSR. Yugoslavia, which is astride the Danube waterway, severs the direct water connection between Rumania and Hungary.

Despite periodic droughts in the Rumanian and Hungarian plains, in the European Satellites generally, precipitation and growing seasons are favorable to temperate zone crops and livestock production. The soil is relatively rich, particularly in the plains areas. Grains, sugar, and tobacco are among the major crops. The state of technology and mechanization is not high, despite efforts to improve productivity. More intensive fertilization has improved output somewhat. Problems of motivation and of organization are aggravated by attempts to provide industry with manpower, to provide investment with resources, and to remake the political complexion of the various countries.

Bauxite, uranium, lead, zinc, coal, oil, and chemical ores are of special importance to individual economies of the European Satellites. There are timber resources of some significance. The region is relatively poor in ferrous metals and in some other minerals basic to industrial economies. Furthermore, minerals and fuels are not evenly distributed among the various countries. The possibility of expanding production of low-cost hydroelectric power is relatively limited, with the notable exception of a Danube Basin project which will probably require Yugoslav participation.

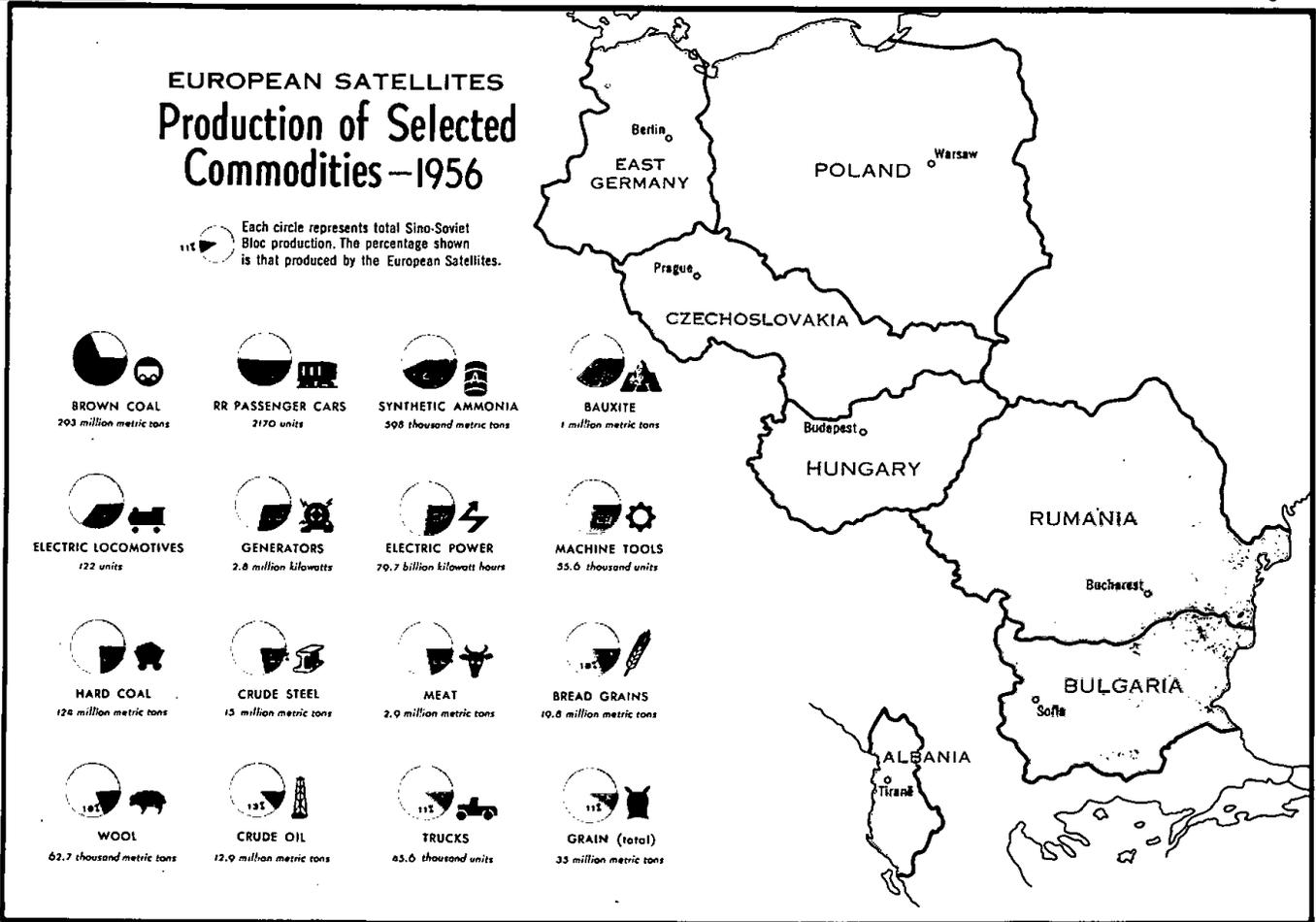
Some areas -- western Czechoslovakia, Hungary, parts of Poland, and East Germany -- have a well-developed standard-gauge rail net. The gauge, however, is not the same as that of the Soviet system, which necessitates time-consuming interchange for through shipments. The rail systems in Rumania, Bulgaria, Albania, and eastern Czechoslovakia are not fully developed.

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Figure 7

50X1



50X1

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The countries of Eastern Europe have long been noted for mutual antagonisms among the various ethnic, religious, and other socio-economic groups. In modern times, there has been increasing recognition of the inability of the individual economies to survive as separate entities, and plans of economic federation, especially for the Balkan countries, have been widely considered. Under Soviet domination an increasing degree of trade and specialization in production is now being achieved for Soviet ends.

C. Structure and Growth of the Economies.

The countries which are now identified as the European Satellites represent a sizable total of economic activity, relative to the USSR, measured in terms of GNP. In 1938, Satellite GNP was almost three-fifths that of the USSR. In 1948, after extensive war damage, followed by the payment of reparations and by postwar confiscation of property by the USSR, Satellite GNP was about two-fifths that of the USSR. In 1956, Satellite GNP was equal to roughly \$63 billion in 1955 US prices, and it was still equal to about two-fifths of the Soviet GNP. Figure 8\* shows the present position of the Satellites in terms of GNP by country and over time.

In 1956 the economies of Poland, East Germany, and Czechoslovakia performed about 80 percent of the economic activity of the European Satellites. Poland is now the largest economy of the group, although before the war East Germany was the largest. East Germany suffered the greatest relative economic loss during the war years; Czechoslovakia, the least. In addition, reparations and Soviet confiscation of property further weakened the East German economy. By 1950-51, most of the Satellites, with the notable exception of East Germany, had reached the prewar standard of living and the economies had generally recovered. Table 2\*\* shows the increases in output in the European Satellites, by economic sector, for 1938, 1950, 1953, and 1956.

After 1950 the European Satellites made substantial progress toward industrialization until in 1954 all, except Albania and Bulgaria, had attained economic structures predominantly industrial. In East Germany, Hungary, and Czechoslovakia, industrial production is about one-half of the economic output, the remainder comprising activities of agriculture, service industries, and government.

\* Following p. 22.

\*\* Table 2 follows on p. 22.

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Table 2  
Increases in Output in the European Satellites  
by Economic Sector  
1938, 1950, 1953, and 1956

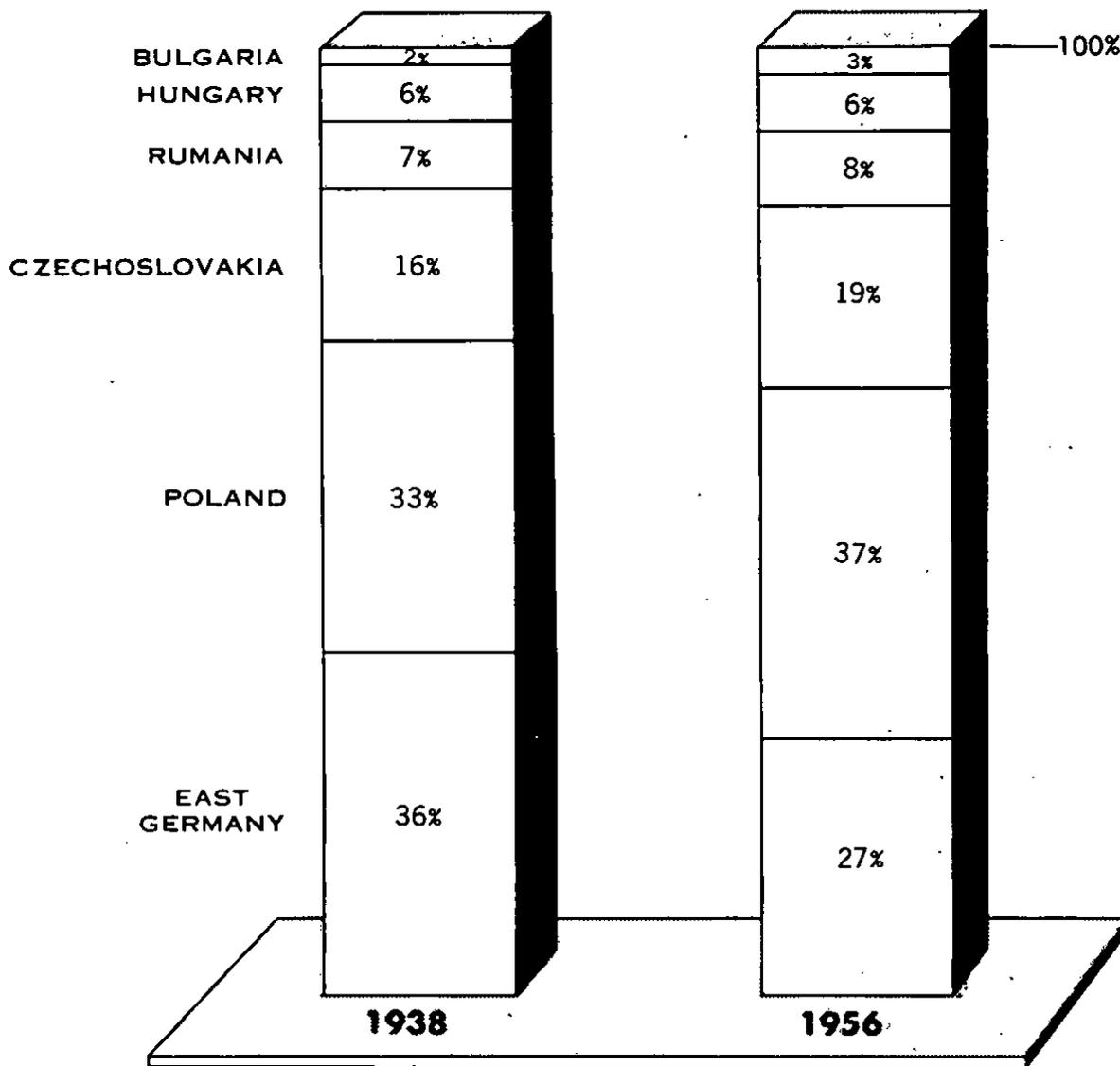
	1950 = 100			
	<u>1938</u>	<u>1950</u>	<u>1953</u>	<u>1956</u>
Gross national product	104	100	123	148
Industry	91	100	135	170
Agriculture and forestry	119	100	101	116
Construction	109	100	162	181
Transportation and communications	80	100	144	170
Trade and services	112	100	116	144

East Germany, Poland, and Czechoslovakia rank highest among the Satellites in terms of the total value of industrial output, the production of machinery and equipment, and per capita living standards. Nevertheless, improvement in living conditions in Poland was so slow in relation to the regime's promises that latent dissatisfaction contributed greatly to the establishment of the new National Communist (Gomulka) regime. The revolt in Hungary was partially a product of economic crisis; civil dissatisfaction, both political and economic; and aggravated balance-of-payments difficulties which further unsettled the domestic economy. These and other examples illustrate that breakneck industrialization is not the sure means of maintaining a Communist regime in power.

Economic and political conditions are still so unsettled in the Satellites that it is difficult to forecast the future with any certainty. All the Satellites revised their 1957 plans downward and many of their 1960 targets as well, in reflection of internal economic difficulties, of the consequences of events in Poland and Hungary, and of other foreign events which included the Suez crisis and the shifting relationships with the USSR. Whether a slowdown in the pace of industrialization in company with programs to implement some economic reforms and to increase output of agricultural goods and consumer goods will stabilize the situation remains to be seen. Many of the measures undertaken thus far appear to be halfway measures which are expedient and alleviate conditions for the moment



### EUROPEAN SATELLITES PERCENTAGE DISTRIBUTION OF GROSS NATIONAL PRODUCT, BY COUNTRY 1938 AND 1956



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but do not go far enough to alter the future course of events. For example, the harsh, pro-Soviet political line now being taken in East Germany will not endear that regime to the population, which can hardly be misled by so-called economic and social "reforms."

D. Population and Manpower.

In 1956 the population of the European Satellites was approximately 95 million, or some 48 percent of the population of the USSR. In that year the population of the Satellites was almost 8 percent greater than in 1948. During the period 1948 to 1956, the greatest increases were shown by Albania (21 percent) and Poland (almost 17 percent). The population of East Germany dropped nearly 6 percent during the same period. In 1956, Poland had a population of 28 million, East Germany 18 million, Rumania 17-1/2 million, Czechoslovakia 13 million, Hungary almost 10 million, and Bulgaria 7-1/2 million.

During the period 1948 to 1956 the combined labor force grew by 9 percent to 48 million. This growth, faster than population growth, reflects both the unemployment prevalent in 1948 and, in subsequent years, the pressures for women and children to work in order to achieve the desired family living standards. In future years, the labor force will grow at a rate consonant with the increase in population, about 1 percent per year. Both Poland and Rumania have an unusually high proportion of the total population in the labor force.

As the European Satellites pushed industrialization rapidly, the nonagricultural labor force increased correspondingly, and the agricultural labor force decreased somewhat. During 1948 through 1956 the nonagricultural labor force increased 31 percent, and during the same period the agricultural labor force decreased by approximately 8 percent. The emphasis on agriculture which was a major feature of the "new course" in 1953 halted the decline in the agricultural labor force.

Subsequently, the nonagricultural labor force has continued to rise, but at a lower rate. By 1955, there were more nonagricultural workers than agricultural, in contrast to 1948, when 58 percent were engaged in agricultural employment. The trend toward nonagricultural employment is evident in each of the countries.

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E. Agricultural Production.

A serious consequence of the rapid industrialization of the Satellite economies during 1948 through 1953 was to weaken the agricultural economy. The area, which had historically been an area of agricultural surplus, became a net importer of major agricultural commodities including grains. In the fall of 1953, under the "new course," a program was initiated to give agriculture a more favorable allocation of manpower, capital goods, and other resources in an effort to stimulate output. The ultimate end was to increase the flow of agricultural goods reaching the consumer and to improve the quality of the consumer diet. This program was at least partially effective, although not successful in preventing the unrest of late 1956. In 1956 the priority accorded agriculture was no longer as high as in 1954, but it was still notably better than that accorded before 1953.

At the present time, the most compelling restraints to increases in agricultural production are (1) land and (2) incentives (or the lack of them) to the agricultural worker. Were productivity not so low, the present levels of agricultural employment would be more than adequate. More favorable allocations of investment capital are providing agriculture with improved technology, with machinery, and with fertilizers. Little can be done, however, to increase the sown area in the European Satellites.

The events of late 1956 in Hungary and in Poland illustrated, among other things, that satisfactory solutions had not been found to the agricultural problems of the European Satellites. The new emphasis on improving agricultural output that was so prominent a part of the "new course" of 1953-54 followed by a good harvest in 1955, plus increased importation of grains from the Free World, all resulted in some improvement in diets but did not fundamentally solve the problems of improving incentives to agricultural workers and peasants. Agricultural stagnation still threatened. The drought in the eastern Balkans in 1956 further worsened conditions.

Along with the projects to mechanize agriculture, to increase crop yields, to increase the supply of fertilizers, and to maintain adequate levels of agricultural employment, it was now obvious that the institutional factors had to be reconsidered. Poland and Hungary both decollectivized extensively in 1957; all the Satellites liberalized the programs for compulsory delivery, increasing the prices paid for

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many commodities and reducing or eliminating quota requirements for many commodities. Machine tractor station (MTS) operations were revamped as efforts were made to convert the MTS's to economic organization, as opposed to their previous primary political responsibilities of control and domination. The USSR, with a good harvest in 1956, provided substantial assistance, especially by large deliveries of grain to the Satellites. These deliveries, primarily to state reserves, made it possible for the Satellites to reform their grain procurement programs while controlling price increases which could be generated by speculation or increased rural market activities. In addition, however, reforms in the distribution system are urgently required to more properly channel the flow of foodstuffs to the urban areas.

In 1956, diet levels per capita generally had reached prewar levels, except in East Germany and Rumania where diet levels were below prewar. In Poland, although the diet level was above prewar and better than in the other Satellites, maldistribution of the food supply led to local shortages, such as a shortage of meat and potatoes in Warsaw in early 1956. In East Germany, rationing still applied to meat, fats, sugar, and winter potatoes as well as to other items in the event of local shortages. In Rumania, wheat and bread were rationed, and prices were high on most food items, especially vegetables and potatoes. In other countries, such as Czechoslovakia and Hungary, local shortages, long queues, and high food prices added to the irritation of the population.

F. Industrial Production.

The economic crisis which became evident throughout the European Satellites in 1956 necessitated a reduction in the industrial targets for 1957 and 1960 below targets formulated earlier in 1956 for those years. Rapid expansion of industry had created problems which were not readily soluble. The supply of domestic iron ore is inadequate and has led to dependence upon imported ore, mostly from the USSR. Shortages of coal and a comparative lack of hydropower resources have retarded the expansion of power necessary for continuation of the past rate of growth. Preferential allocation of resources to industrial expansion has retarded the growth of agriculture and has restricted improvement of living standards.

Under such circumstances of strain in the economy, new policies are called for. More advanced technology must be employed in an effort to reduce costs, improve quality, and reduce consumption of metals.

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New trade patterns must be developed, both in terms of foreign trade with Free World countries which have resources needed by the Satellites and in terms of increased intra-Bloc specialization in production. Efforts must be made to stimulate worker productivity, and in this, anything which increases worker motivation may be important. Efforts have been made in each regard, although with only limited success to date. Technology continues to be a major concern. Labor and management reforms were undertaken throughout 1956 but subsequently were largely mitigated by Soviet actions to reassert domination following the Hungarian uprisings. The new trade patterns, including increased trade with the underdeveloped nations of the Free World, are increasing in importance to the Satellite economies.

After postwar reconstruction, the economies of the various Satellites demonstrated most rapid growth in the following branches of the industrial sector: energy, chemicals, machinery and equipment, metals, and building materials. The growth in the output of forest products, food processing, and light and textile products has been smaller.

By 1953, many of the economic strains had begun to become evident. From 1950 through 1953, annual industrial fixed capital investment had grown at a rapid rate, and consumption expenditures had grown at a low rate. The trend toward the importing of agricultural commodities was another danger sign. In 1953 and 1954, new policies were undertaken (the "new course") which modified the structure of capital investment and provided a series of new measures designed to increase agricultural production and the output of consumer goods.

The "new course" corrected the strains partially, but not sufficiently. During 1954 and subsequently the Satellites began a rapid increase in exports to Communist China. It has not been determined that these exports, which largely consisted of machinery and equipment, represented a strain to the Satellites, but it is possible.

The production of military end items in the European Satellites remains small compared with that of the USSR. Czechoslovakia, Poland, and East Germany, in that order, are the chief countries producing military end items. The aircraft effort is largely concentrated in

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Czechoslovakia and in Poland. Small naval vessels are produced in East Germany. Tanks are produced in Czechoslovakia and Poland. Open budget appropriations for defense, which do not represent the entire defense expenditures, were about 10 percent of Satellite budgets in 1955. In 1956, following the Soviet lead, the Satellites announced reductions in the armed forces. In 1957 the Polish government announced a further independent reduction in the size of its armed forces. Despite the 1956 reductions, since 1955 there has been a buildup of the actual striking power of the Satellite forces and an increase in their coordination, as evidenced by joint maneuvers. The Hungarian uprisings have caused some reassessment by Soviet authorities of the use of Satellite forces; one consequence has been greater employment of Soviet forces throughout the Satellites, "under the Warsaw Pact."

G. Foreign Trade.

The European Satellites are highly dependent upon foreign trade as a means of supplementing their meager resource base and as a means of augmenting the markets for their manufactures. This is in contrast to the situation of the USSR, for which foreign trade is a relatively marginal economic activity. In 1956 the foreign trade turnover of the European Satellites was valued at 1950 US \$9.5 billion, and that of the USSR was only 1950 US \$6.9 billion. As a comparison, the output of the Satellite economies (in GNP terms) was only two-fifths that of the Soviet economy in 1956.

Within the comparatively few years since the assumption of Communist control over the economies of Eastern Europe, there has been a virtual revolution in the direction of movement and the composition of the foreign trade of the area. Before the war, more than 80 percent of the trade of these countries was with countries presently outside of the Sino-Soviet Bloc. At that time the USSR accounted for less than 3 percent of their total trade, and commerce with China was negligible. On the other hand, there were extensive trade ties with prewar Germany.

Immediately after the war, the USSR exploited the Satellite economies and accumulated an import balance of considerable proportions, when reparations are considered as part of the picture. After 1949-50 the USSR began to support the reconstruction of the Satellite economies by supplying raw materials and some investment goods in return for machinery, equipment, and such resources as coal and petroleum. This trade expanded under the further stimulus of Western trade controls and a buildup of the Satellite armaments industries which occurred during 1951-52. Subsequently, Satellite trade

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with Communist China expanded greatly. By 1955, at least two-thirds of the foreign trade of each Satellite was with other countries of the Sino-Soviet Bloc, and in every case trade with the USSR was greater than trade with the entire Free World.

The commodity composition of European Satellite foreign trade has been transformed as well. Trade in machinery and equipment has increased, with exports of these items from Czechoslovakia, East Germany, and Poland assuming great economic significance. Soviet net imports from the Satellites totaled well over 1 billion trade rubles (1950 US \$250 million) in 1954. Currently, Satellite shipments of machinery and equipment to Communist China nearly equal the value of corresponding Soviet shipments to China -- \$250 million. Before the war, the Satellites as a group were net exporters of agricultural products; now they are net importers of grain and perhaps of foodstuffs in general. Fuel resources have been consumed in growing quantities, leading to new international flows of coal and petroleum. Finally, imports of commodities of vital importance to industrialization -- particularly such basic materials as iron ore -- have increased greatly.

The transformations were equally great for individual countries. Before the war the area that is now East Germany had no significant metallurgical base of its own; now it does, which increases the significance of its imports of iron ore and fuels and of its exports of manufactures. Czechoslovakia was noted before the war for its light industries; the postwar emphasis upon heavy industry has altered its production patterns and its trade patterns as well. Prewar Bulgaria exported chiefly foodstuffs and raw materials and imported manufactured goods; now grain has almost disappeared from the export list; the share of tobacco, fruit, and vegetables has increased; and imports of machinery and equipment have overwhelmingly replaced consumer goods imports. Likewise, in Rumania, imports of investment goods have largely superseded imports of consumer goods, exports of industrial products have assumed some importance, and the large prewar export of grains has become only occasional and of little significance. Poland and Hungary, formerly exporters of grain, now import grain, and heavy industrial products enter much more heavily than previously into their imports and exports.

There recently has been some tendency for the European Satellites to increase their foreign trade with countries outside of the Sino-Soviet Bloc. The share of the total trade of Czechoslovakia and

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Rumania going to Free World countries increased in 1954. In the same year the other Satellites increased the absolute value of trade with the Free World but did not notably increase the share of trade going to the Free World. In 1955 and more particularly in 1956, Satellite participation in the Soviet-inspired drive to increase trade relations with underdeveloped countries of the Free World led to an increase in extra-Bloc trade. The Satellite commercial agreements with countries in the Near East, Asia, and Latin America can lead to new trade patterns of great significance. For most of this trade an economic basis as well as a political motivation exists.

Despite the potential importance of future shifts in the direction of extra-Bloc trade, Western Europe continues to be the most important extra-Bloc trading area to the European Satellites, as it accounts for about three-fourths of their total extra-Bloc trade.

### III. Communist China and the Asiatic Satellites.

#### A. Introduction.

The economic policy of the Chinese Communists is directed toward the rapid development of industrial and military power. To this end, Soviet experience is imitated where it is feasible, but new practices are developed where required by conditions peculiarly Chinese. In theory, the present economic institutions are transitional in a program moving toward socialism. Cooperatives and private enterprises continue to function, under the general direction of the state, along with state-owned and joint state-private enterprises. During 1955 and 1956, state control over agricultural activities was expanded notably. State control over the economy is not yet as all-pervasive as in the USSR or the European Satellites. Nevertheless, it has increased rapidly in the few years since 1949.

In 1949 the Chinese Communists seized political control over the Chinese mainland. They acquired an economy which had been strained by years of warfare and was actually comprised of three economies, not one. In Manchuria the Japanese had undertaken development of an industrial complex and had invested in heavy industry, transportation, and electric power. This complex, now of such great importance to China, had been oriented toward the Japanese economy and after the war had been largely dismantled by the occupying Soviet forces. The second economy was the coastal economy, based on light industry, foreign capital, and cheap labor. Shanghai was the most important

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center. The third economy was that of the Chinese mainland -- a primitive, agricultural economy. The fusion of these three economies into a single whole is yet a major task of economic policy.

In the initial phases of reconstruction, the strained Chinese Communist economy suffered from hyperinflation. By the end of 1950 the economy was subjected to the additional strains of the Korean War and drastic reduction in trade with non-Communist countries. Nevertheless, through strict regimentation of economic life, Soviet assistance, and abundant use of poorly trained labor, the industrial production of China by 1952 had recovered to prewar levels, which indeed were not impressively high.

The Chinese Communist economy is predominantly agricultural -- that is, most of its income is derived from agricultural production and from processing and trading in agricultural products. In effect, then, the resources required for the industrial buildup of China must be wrung from the agricultural economy in such forms as manpower and tax revenues. Not only is great sacrifice required to industrialize the country but also there are other pressing requirements, such as experience in technological development and in management. Communist China, then, looked abroad for assistance. It found the USSR willing to supply capital goods on credit and to supply technological documentation and managerial manpower. Statements by the Chinese and by the Soviet officials tend to exaggerate the extent of this aid. Although industrial credits worth \$430 million were extended in 1950 and in 1954 by the USSR, the majority of the capital goods imported from the Soviet Bloc countries are barter shipments repaid mostly by Chinese shipments of agricultural products and raw materials. The recovery of the economy has been rapid, nevertheless, and during 1953-57 China has taken great strides toward accomplishment of the First Five Year Plan. Grave economic problems yet remain to be solved, especially in the field of agriculture. Figure 9\* shows the relationship between China and the rest of the Sino-Soviet Bloc in terms of the production of selected products.

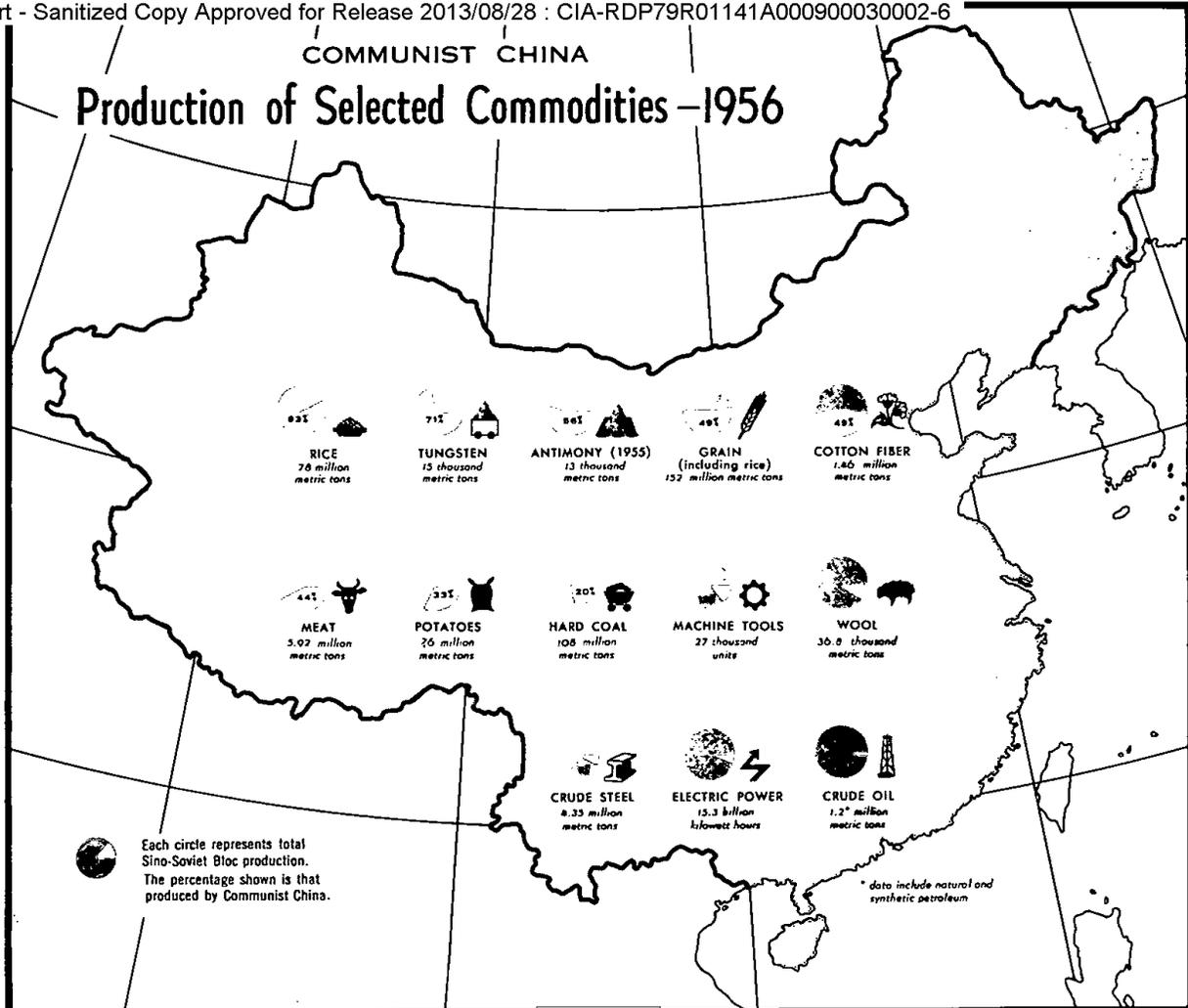
Like Communist China, in 1949, present-day North Korea possesses a nucleus of industry and a war-shattered economy. North Vietnam is more agricultural in its basic economy, and aside from political considerations might be expected to orient increasingly toward the Chinese economy.

\* Following p. 30.

Figure 9

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B. Geographic and Regional Characteristics.

Historically, factors of geography, ethnic groupings, language, and tradition have prevented fusion of the area that is now Communist China into a politico-economic unity. Great distances, mountainous terrain, arid climate, and ethnic groups passive or opposed to Chinese Communist control create great difficulties in the economic development of the western areas of China. In particular, Sinkiang is peculiarly isolated and susceptible to Soviet cultural and economic influences. Traditional differences of dialect and outlook separate North and South China. Natural barriers and environmental characteristics tend to divide China proper into distinctive northeastern (Manchuria), northern, central, and southern geographic regions. To the south and west the great mountain ridges form a traditional barrier between China and India.

Problems of transportation have contributed to the historic regionalism of Communist China. Interregional water routes are scarce, and the railroad net, a modern foe of purely localized economic development, is still in the process of formation. The major rivers, which have a general east-west alignment, are a major means of transportation, but the railroads carried more than 80 percent of the total ton-kilometers of freight moved in 1955. The economy is served by a relatively small number of coastal ports, which are not fully utilized. The Chinese Communists have a small fleet which engages primarily in coastal operations, and they are dependent upon foreign-registered vessels for longer international hauls. Seaborne commerce in 1955 carried almost 10 percent of Sino-Soviet trade and more than 95 percent of Sino-Satellite trade as well as nearly all of the non-Bloc trade.

Chinese agriculture, like the population, is clustered in a comparatively small portion of the great land mass of the country. Conditions of rainfall, topography, and soil sharply limit the availability of land for agricultural use. Although China possesses extensive mineral resources, deposits are widely scattered and are not easily accessible.

The northeast region (Manchuria) is the most advanced industrial area in Communist China. More than half of China's existing iron ore reserves are located in the vicinity of An-shan. About 40 percent of China's coal is extracted in the northeast region. Non-ferrous ores and oil shales add to the resource base. The railroad

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net is relatively highly developed. Finally, rich agricultural lands and moderate population density result in grain surpluses which are exported to other regions of China. The existence of this industrial base on the border of the USSR leads to complex problems in Sino-Soviet relationships. Recently the USSR has proposed joint development of the Amur Basin, involving ambitious plans for electric power generation, possible diversion of the Amur River through Manchuria, and general resource exploitation in the North Manchuria-Amur River areas. Survey work is to be conducted during the Soviet Sixth Five Year Plan (1956-60) with possible development work to be undertaken subsequently.

North Korea, like Manchuria, was developed extensively by the Japanese. It is, nevertheless, primarily an agricultural economy, as is the economy of North Vietnam.

C. Structure and Growth of the Economy.

Economic data for Communist China are not sufficiently accurate to permit more than a rough measurement of the extent and trends of economic activity. Such measurement, as reflected in intelligence estimates, is necessary, however, to a better understanding of the transformation of the economy.

The economy, which is underdeveloped, is growing rapidly. In 1956 the GNP stood at a level 78 percent higher than in 1950. In other words, it has been growing at a rate of 10 percent a year. The future growth rate is expected to be somewhat less rapid -- 7 to 8 percent per year.

Capital investments have been expanding more rapidly than consumption. In 1956, domestic investment was triple the 1950 level, in comparable prices; during the same time, total consumption increased only 60 percent. Such a relationship is one frequently encountered in a country undergoing rapid industrialization, largely based on domestic resources, and anxious to prevent inflationary pressures from getting out of hand. In addition, a rapid increase in real purchasing power for the population would probably lead to excessive demands for agricultural produce, the production of which cannot keep pace with the increasing expansion of the economy.

As a rough guide for purposes of comparison it is estimated that in 1955 the GNP of Communist China was almost 1952 US \$58 billion.

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A comparison of the increases in output, by economic sector, and the growth of GNP in China for 1950, 1952, and 1955 is given in Table 3.

Table 3  
Increases in Output in Communist China  
by Economic Sector  
1950, 1952, and 1955

Economic Sector	1952 = 100		
	1950	1952	1955
Agriculture, forestry and fishing	87	100	107
Industry	53	100	158
Modern transportation and communications	69	100	172
Trade (including native transportation)	63	100	141
Construction	49	100	157
Government	82	100	116
Miscellaneous services and rent			
Rural	90	100	105
Urban	64	100	131
Gross national product	76	100	125

D. Population and Manpower.

As a matter of sheer arithmetic, the population of Communist China is impressive. In 1956 the population probably surpassed 600 million, and it is growing at the rate of about 10 million per year. As a factor contributing to economic strength, the population statistics must be examined more carefully. In the first place, only a portion of the total population is in the labor force -- about 300 million, or 50 percent. Actually, this ratio is relatively high and partially reflects economic compulsions for women and children to earn a living by labor. Of the labor force, more than 80 percent is employed in agriculture, and of these, a high proportion earn a subsistence living, contributing little to the economy. Possibly

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60 million people are employed in nonagricultural occupations, but complete statistics are available only for those workers employed in state economic departments -- some 21 million in 1956.

The productivity of labor is generally low, both in industry and in agriculture. In industry, agriculture, and construction, manual labor plays a major role.

In 1953 the population was 13 percent urban, 87 percent rural. As the pace of industrialization has increased, wages and prices have both tended to favor the urban worker. In consequence, there has been an extensive movement of peasants into the cities, which has resulted in urban overcrowding and rural labor shortages. This migration pattern will present a serious problem if agricultural production fails to keep pace with population increases. In addition, employment must be found for the transplanted peasants and an effort made to alleviate conditions of overcrowding in urban areas.

Despite relatively plentiful unskilled labor, serious shortages exist for skilled, semiskilled, and technical workers. The college enrollment targets for 1957 were revised upward to 510,000 students, and plans for secondary vocational training were increased. The main emphasis in education is upon vocational training.

North Korea and North Vietnam both have predominantly rural populations and are faced with a considerable shortage of technical, managerial, skilled, and semiskilled labor. In both countries the agricultural base appears inadequate to support the expanding populations.

E. Agricultural Production.

The intense efforts of the Chinese Communists to industrialize rapidly led of necessity to a decline in the relative importance of agriculture and make likely a continuation of an acute food problem for many years to come. The allocation of manpower, machinery, and construction efforts to the expansion of industry and transportation precludes a rapid expansion of agricultural production. Nevertheless, significant efforts are being made to expand production through a reorganization of agricultural life, the development of better patterns of land utilization (such as amalgamation of small fields into larger fields), efforts to control floods and to construct irrigation systems, the greater use of chemical fertilizer, the use of

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better seeds and pesticides, and the gradual extension of the use of better tools and machinery. In 1955, collectivization of agriculture was accelerated until by November 1956 about 96 percent of the agricultural households were in agricultural producer cooperatives and collectives. These cooperatives are of two types, one in which a return on land ownership is included in income payments to the individual peasants, although utilization is cooperative, and the second, "higher," type, in which the land ownership is vested in the collective and all payments are based on labor contributed. By the end of 1957 it is planned that 90 percent of the collectives will be of the "higher" type. It remains to be seen what effect these moves will have on peasant incentives. The availability of fertilizers will be small in relation to the amount of cultivated land for years to come, and mechanization can proceed only slowly. Current plans indicate that 10 percent of the tilled land will be cultivated mechanically by 1962.

Agricultural production has grown only gradually, and the per capita supply of food in 1956, only slightly higher than in 1952, was under the average level for 1931-37. Floods in 1954 and typhoons and bad crop conditions in 1956 held back improvement in agricultural production; 1955, however, was a good crop year. At present, grain is rationed in the urban areas. Dietary levels are generally low.

Growing industrialization leads to increased emphasis on commercial crops, the production of which has been increased both by an expansion of acreage and by increased yields per acre. Production of commercial agricultural commodities (such as cotton, tea, and tobacco) will continue to expand rather rapidly, without necessarily impinging upon food crops. In 1956, typhoon winds and rains did substantial harm in the cotton belt.

F. Industrial Production.

The efforts of Communist China to industrialize rapidly have cost heavily but have had a degree of success. During the recovery period from 1949 to 1952, industrial output increased by more than 30 percent per year. At the present time, the rate of increase is somewhat more than 10 percent per year. Typical of the Communist development pattern, which is designed to maximize economic and military power, preference in the allocation of resources has been given to heavy industry -- to the manufacture of producer goods, to the

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extraction of mineral wealth, and to the development of energy resources. Almost 60 percent of capital investment goes to industry, and an additional 13 percent goes to railroads.

The armaments industry of Communist China has demonstrated a parallel growth. Nevertheless, it is not yet capable of meeting all the potential requirements of the armed forces. The regime has concentrated upon the production of relatively small equipment such as small arms, machineguns, and mortars as well as some light artillery. By 1960 it is believed that China will be capable of producing, from its own resources, tanks and possibly antiaircraft artillery and military aircraft.

Heavy industry developed rapidly between 1952 and 1956. Electric power production increased 110 percent to 15.3 billion kilowatt-hours; coal increased 64 percent to 108 million metric tons; finished steel increased 194 percent to 3.2 million metric tons; crude oil, 180 percent to 1.2 million metric tons; and cement, 134 percent to 6.2 million metric tons. Production of nonferrous metals increased sharply. In 1956, large increases in heavy industrial production apparently strained the economy; smaller increases are planned for 1957. The socialization of industry in Communist China from 1952 to 1956 is shown in Table 4.

Table 4

Socialization of Industry in Communist China a/  
1952 and 1956

<u>Ownership</u>	<u>Percent of Total Output</u>	
	<u>1952</u>	<u>1956</u>
State-operated	50	63.8
Cooperatives	3	4.7
Joint state-private	5	31.1
Private	42	0.4
Total	<u>100</u>	<u>100.0</u>

a. Classification of industrial output (excluding handicrafts) according to ownership of producing enterprises.

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G. Foreign Trade.

The changing political and economic conditions of Communist China have been accompanied by changing patterns of foreign trade. Foreign trade, now at its highest level in history, is conducted with a new set of partners, under different rules of the game. Before World War II, less than 2 percent of the trade of mainland China and Manchuria was conducted with the USSR and the countries now its Satellites. In 1956, about 75 percent of the trade of Communist China was with these countries.

In return for imports, primarily of producer goods (about 85 percent), Communist China exports agricultural goods and raw materials. Imports include industrial equipment and installations, transport equipment and machinery, agricultural implements and machinery, military equipment, metals, industrial raw materials, fertilizers, and pharmaceuticals. In return, cereals, oilseeds, vegetable oils, textile fibers, animal products, coal, minerals, and some metals are exported.

Even before the maintenance of effective trade controls against Communist China by the Free World countries in late 1950, trade between Communist China and the Soviet Bloc countries demonstrated a marked increase, being nearly 35 percent of Chinese trade in 1950. Although the lifting of trade controls would likely lead to an increase in the relative importance of trade between China and non-Communist countries, trade with the other countries of the Sino-Soviet Bloc would continue to be extensive. It is further likely, however, that the lifting of controls would make the terms of trade more favorable for China. With removal of controls, the volume of trade between China and Japan would increase, especially as China would seek Japanese markets for its goods, but it is unlikely that China would ever again be the attractive market for Japanese goods that it was when Manchuria was under effective Japanese control and part of the yen area.

The USSR has assisted Communist China substantially in its industrialization program. It has provided capital equipment, some on credit; technical assistance; and the services of Soviet engineers and planning personnel. To a significant degree, however, the European Satellites have shouldered much of the effort. The USSR is shipping equipment annually valued at some \$250 million to \$300 million; the European Satellites are shipping annually about \$250 million worth.

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Shipments of machinery and equipment into China have increased significantly during past years but may tend to level out soon. It is the intention of the government of Communist China to increase the relative importance of domestic industry in supplying the goods for future industrialization. As the various machine-building plants now under construction begin production, this aim should be realized.

IV. East-West Comparison.

Neither the USSR nor the US stands alone in the world. It is thus of importance to examine the relative strengths of the two blocs -- the Sino-Soviet Bloc and the NATO powers. Nevertheless, it is true that neither bloc is fully integrated, and that the frictions and disunities which prevail in each bloc will be ultimately of basic importance to the power position.

The GNP of the USSR in 1956 was 40 percent that of the US, in terms of 1955 US dollars. In 1948, however, the ratio of Soviet to US GNP was about 25 percent. In the future, Soviet GNP will continue to increase as a proportion of that of the US, and the disparity in absolute terms will begin to narrow sometime in the 1960's, if present relative growth rates continue.

The economic disparity between the two major groups of powers aligned with the US and the USSR -- the NATO powers and the Sino-Soviet Bloc -- is practically the same as that between the USSR and the US. The GNP of the Sino-Soviet Bloc is about 38 percent that of the NATO countries, which include the US. From another point of view the European Satellites, Communist China, and the Far Eastern Satellites bear approximately the same relationship to the USSR as do the other NATO countries to the US in terms of total production. In the event of successful realization of the Soviet aim -- successful promotion of disunity in the West and consolidation of the Sino-Soviet Bloc -- the picture would be much different. In 1956 the total GNP of the Sino-Soviet Bloc was nearly 70 percent of that of the US. By 1960 it could be nearly 78 percent.

At present the economies of the NATO powers are maintaining a clear lead over the economies of the Sino-Soviet Bloc in terms of over-all economic strength. At the same time, it should be

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emphasized that the relationship is different if only that part of GNP which is devoted to national security is considered. Much of the wealth of the West is devoted to maintaining and increasing living standards, whereas living standards in the Sino-Soviet Bloc are much lower and a greater share of total resources is allocated to national security and military readiness than in the West.

The comparison of GNP for the Sino-Soviet Bloc and the Western alliances also suffers by virtue of the aggregative nature of GNP and may be somewhat misleading if only war-supporting capabilities are considered. The Soviet machine tool industry is comparable in size, although not always in quality of output, to the US machine tool industry. The additions to steel capacity in the USSR parallel US additions even though Soviet steel output is about 42 percent that of the US. The relatively small quantities of petroleum products used by civilian transport in the USSR compared with the US makes it possible for the USSR to allocate a higher share of petroleum products to the military and to industry.

When NATO production of various specific commodities is compared with Sino-Soviet Bloc production, the advantage falls to the West by varying margins. Energy consumption in the NATO countries is more than three times that of the Sino-Soviet Bloc, and steel production in NATO is about three times that of the Bloc. NATO wheat production is, on the other hand, 3 percent smaller than that of the Sino-Soviet Bloc countries. The per capita availability of wheat, however, is much greater in the NATO countries.

The rates of economic growth achieved in the Soviet Bloc from 1946 to 1949 and in the Sino-Soviet Bloc from 1949 to 1956 have been higher than those in Western Europe and in the US. It is probable that the Sino-Soviet Bloc countries will continue to achieve rapid rates of economic growth, although at a somewhat slackening rate, in the foreseeable future. Industrial production will grow faster than GNP and will probably more than double between 1956 and 1966. The economic growth of the Satellites will be significantly less than that of the USSR. The pace and pattern of economic expansion in the Satellites is bound to be profoundly affected by recent events in the Satellites and by an induced reexamination of Soviet goals and policies concerning the Satellites.

Even if there are no severe business recessions, the NATO countries are not expected to develop their economies as rapidly as the

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Sino-Soviet Bloc countries. The lag will be greatest with respect to industrial production, if present trends continue. It should be noted that in the Western world growth tends to be not an end but a means to an end, which is that of satisfaction of the individual consumer within the context of his society and the common interests. It is thus not certain that forced economic growth is generally desired in the Western world, if it is at the expense of the prevailing consumer orientation. The Free World has opportunities, however, to stimulate labor productivity and production innovation.

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